STRUCTURAL BALANCE

GENERAL FUND

Structural balance refers to the matching of *ongoing* expenditures with *ongoing* revenues. If revenues equal or exceed expenditures, structural balance is achieved. If expenditures exceed revenues, structural imbalance occurs. General fund expenditures chronically exceeded ongoing revenues for several biennia in the 1980s and early 1990s (see Figure 1). In order to keep the account solvent, the legislature approved numerous one-time transfers from other accounts into the general fund. They also enacted several temporary revenue increases throughout that time.

In the early 1990s, the legislature began to make progress toward addressing the problem of continuing structural imbalance in the general fund. In setting revenue and expenditure targets, the 1993 House adopted language prohibiting use of "one-time revenue...for any purpose other than creating an ending fund balance" and "temporary solutions to the state's chronic fiscal woes." This effort continued into future sessions, and final legislative actions taken during the 1993 and subsequent sessions have reflected these objectives. However, supplemental appropriations have sometimes contributed to a small negative cash flow.

On the expenditure side, legislators have faced the ever-present difficulty of holding down budget growth when confronted with double-digit percentage growth in corrections costs, increased human services demands, rising funding requirements in education, and a larger debt service obligation. In the 1993 and subsequent sessions, the legislature enacted measures to contain costs in programs growing faster than revenues, such as Medicaid and foster care. These measures were designed to slow expenditure growth, and to help the legislature reach structural balance in the general fund in future biennia.

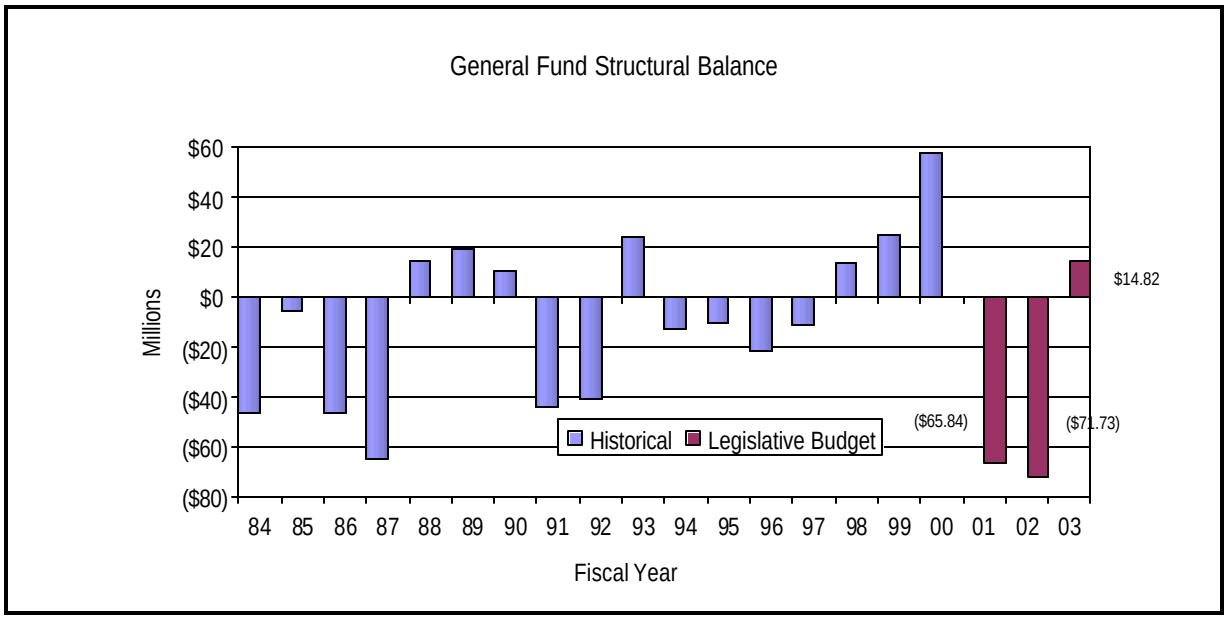
The effort to minimize use of one-time revenues and to enact measures through which to permanently control expenditure growth has begun to show success in recent biennia. However, the tight budget constraints that faced the 2001 legislature and the availability of a high beginning fund balance resulted in non-attainment of a structurally balanced budget for the 2003 biennium. Figure 1 shows that the appropriations approved for the 2003 biennium will exceed revenues during the 2003 biennium by $56.9 million. This results in a significant imbalance, and general fund revenues would have to grow by 2 percent for the 2005 biennium just to fund the existing level of expenditures for the 2003 biennium, and before any provision for present law or new proposal increases. Since the general fund increases only an average of 2 to 3 percent per year and an even more modest growth is projected for the next biennium, the outlook for adequate revenues to support even a present law budget in the 2005 Biennium is diminished. This is especially true when comparing to the double-digit growth in general fund appropriations for the 2003 biennium.[1]

[1] It should be noted that the approved budget includes both revenue and expenditure components designated as one-time-only. One-time components occur every session, and for the purpose of this analysis, the one-time budget items are considered to be offsetting when comparing biennium to biennium.

Figure 1
Revenue and Disbursement History
General Fund & School Equalization Accounts
In Millions

	Fiscal Year	General Fund Revenue	General Fund Disburse.	Surplus / Deficit	School Equalization Revenue		School Equalization Disburse.	Surplus / Deficit	GF/SEA Revenue	GF/SEA Disburse.	Surplus / Deficit	Biennium Surplus/Deficit
A	84	$330.305	$357.387	($27.082)	$242.384		$261.753	($19.369)	$572.689	$619.140	($46.451)	
A	85	364.522	380.359	(15.837)	281.275		271.016	10.259	645.797	651.375	(5.578)	($52.029)
A	86	349.541	366.815	(17.274)	252.899		282.166	(29.267)	602.440	648.981	(46.541)	
A	87	346.690	391.325	(44.635)	263.052		283.428	(20.376)	609.742	674.753	(65.011)	(111.552)
A	88	391.152	370.853	20.299	276.216	*	281.886	(5.670)	667.368	652.739	14.629	
A	89	411.729	388.270	23.459	275.589	*	279.536	(3.947)	687.318	667.806	19.512	34.141
A	90	447.962	432.323	15.639	282.389		287.393	(5.004)	730.351	719.716	10.635	
A	91	420.257	457.612	(37.355)	385.031		391.500	(6.469)	805.288	849.112	(43.824)	(33.189)
A	92	487.036	523.072	(36.036)	393.591	*	398.059	(4.468)	880.627	921.131	(40.504)	
A	93	539.955	523.553	16.402	412.903		405.067	7.836	952.858	928.620	24.238	(16.265)
A	94	480.021	497.921	(17.900)	411.834		406.388	5.446	891.855	904.309	(12.454)	
A	95	646.149	535.461	110.688	289.199	*	409.822	(120.623)	935.348	945.283	(9.935)	(22.389)
A	96	963.193	984.997	(21.804)					963.193	984.997	(21.804)	
A	97	986.570	997.835	(11.265)					986.570	997.835	(11.265)	(33.069)
A	98	1,034.382	1,020.591	13.791					1,034.382	1,020.591	13.791	
A	99	1,068.111	1,043.418	24.693					1,068.111	1,043.418	24.693	38.484
A	00	1,163.641	1,105.598	58.043					1,163.641	1,105.598	58.043	
F	**01**	**1,213.719**	**1,279.554**	**(65.835)**			**Legislative Budget**		**1,213.719**	**1,279.554**	**(65.835)**	**(7.792)**
F	**02**	**1,405.529**	**1,477.257**	**(71.728)**			**Legislative Budget**		**1,405.529**	**1,477.257**	**(71.728)**	
F	**03**	**1,347.037**	**1,332.214**	**14.823**			**Legislative Budget**		**1,347.037**	**1,332.214**	**14.823**	**(56.905)**

* Excludes education trust & general fund transfers.
Note: The 1995 Legislature de-earmarked school equilization revenue to the general fund.



Achieving structural balance is further exacerbated by delayed implementation of expenditure increases and revenue reductions in the current (2003 biennium) budget. In many cases, expenditure increases do not occur at the beginning of the biennium, but are phased in over the biennium. This results in a cost reduction for the current biennium, but an increased cost in order to fund that same level of program service in the following biennium. As an example, the state employee pay plan increases are phased in over the biennium, and the cost to fully fund the pay plan in the next biennium will result in a budget increase of $21.4 million. Other phased in expenditures include university system per student support, provider rate increases, and residential alcohol treatment. (The phased implementation of BASE aid increases for K-12 education are not included because the increase will be nearly fully offset by projected enrollment declines.) The total increased costs for these items alone in the 2005 biennium will be over $33 million.

In addition, there were five revenue bills passed in the 2001 session that have a phased-in reduction impact on state revenues, which will reduce revenues in the 2005 biennium by nearly $20 million.

The combined additional cost of the major phased-in appropriations and revenue reductions is over $50 million additional in the 2005 biennium just to maintain the current level of expenditures. This is in addition to the over $50 million structural imbalance due to excess ongoing expenditures over revenues. The adoption of a structurally imbalanced budget for the 2003 biennium may result in a significant budget challenge for the 2003 legislature. Note that the above items may be partially offset by changes in statutory appropriations for local distributions.

HIGHWAYS SPECIAL REVENUE ACCOUNT

Figure 2 summarizes the projections of working capital for the highways special revenue account. This account funds the Department of Transportation highway construction and maintenance activities, highway safety enforcement activities in the Department of Justice, state park road maintenance functions in state parks, and capital projects related to highways infrastructure. The highways special revenue account is chronically structurally imbalanced, and the level of revenue growth cannot sustain the level of expenditure growth needed to support the services provided. The projections show the account is anticipated to be expended at a higher level than expected revenues for the 2003 biennium (expenditures will exceed revenues by $12.1 million), and the account is projected to go negative in fiscal 2002. A detailed working capital analysis for the highways special revenue account is provided in the Department of Transportation agency discussion in Volume 3, page A-63.

Figure 2
Highways State Special Revenue Account
Projected Working Capital Analysis
Fiscal 2000 - 2005
In Millions

Component	Actual Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Beginning Working Capital Balance	$49.0	$23.5	$5.6	($3.7)	($6.4)	($78.4)
Revenues	219.1	215.4	215.1	217.6	220.2	222.9
Available Working Capital	268.1	238.9	220.7	213.9	213.8	144.5
Authorized Expenditures	235.9	233.3	225.0	220.6	221.2	227.2
Adjustments and Impacts of Legislation (2001 Legislature)	(8.7)	0.0	0.6	0.2	(0.4)	(1.1)
Ending Working Capital Balance	$23.5	$5.6	($3.7)	($6.4)	($7.8)	($83.8)
Variance - Revenues less Expenditures	(16.8)	(17.9)	(9.3)	(2.8)	(1.4)	(5.4)

Although the anticipated imbalance declines in the 2005 biennium and beyond due to retirement of a large debt service payment, the account continues to be structurally imbalanced, and there are insufficient current revenues to remain solvent beyond the current biennium. Clearly, if a full match of available federal funds is to be achieved to provide for a fully funded highways program, a revenue increase will be needed. Another bond issue is an option to defer the need for a revenue enhancement, but would only delay and increase the ultimate cost of a revenue increase. The account is the victim of funding by a relatively inelastic revenue base – motor vehicle fuel taxes. Construction, maintenance, and operating expenditures increase with general inflation whereas the tax on motor fuels is a fixed percentage per gallon. Tax revenues increase only if the number of gallons sold increases and not relative to the price of gas. As such, there is no link between expenditure inflation and revenues. In the long term, revenues cannot sustain the escalating costs of the highway program.